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SUBJECT: SHARM AFTERMATH UPDATE

REF: CAIRO 5650 AND PREVIOUS

Classified By: CDA Stuart E, Jones for reasons 1.4 (b) and (d)

Summary

11. (C) Resilience among tourists and shock-absorbers in the economic system may be calming initial fears regarding the economic fallout of the July 23 Sharm El Sheikh attacks, but near-term pain is still expected. Security forces reported on August 2 that they had killed a prime suspect in the Taba bombings of last October, Mohamed Ahmed Salih Fulayfel. Some are linking him to the July 23 attacks. Security in Sharm has been visibly increased, with new barriers and screening points in and around the hotels. Hotel bookings are off, but some recovery is anticipated in October with the traditional arrival of Russian tourists and a campaign by Egyptian celebrities to make Sharm a Ramadan destination for Arabs. The GOE is partnering with state-owned enterprises and the private sector to coordinate and fund rebuilding and to avoid mass layoffs. Minister of Tourism El Maghrabi called on the Charge July 31 to personally express his condolences for the death of Amcit Kristina Miller. The official GOE death figure stands at 64, however it likely underestimates the number of British dead. The family held the funeral for Ghaleb Tappouzzada, son of Embassy Cairo LES Ramy Tappouzzada, August 1 in Cairo. End summary.

Security Situation

12. (C) Egyptian security forces reported on August 2 that they had killed a prime suspect in the October 2004 Taba and Nuweiba bombings, Mohamed Ahmed Saleh Fulayfel, during a clash near Mount Ataqa (11 miles west of the town of Suez). According to reports, security forces were conducting investigative operations in connection with the Sharm attacks when the clash ensued. Fulayfel's wife was reportedly wounded and was transported to a nearby hospital. Fulayfel was being tried in absentia for his suspected role in the 2004 bombings. Some sources have been linking Fulayfel to the July 23 bombings. Authorities announced on July 28 that forensic evidence identified what is believed to be the lone suicide bomber in the Sharm attacks as Yusuf Badran, a known Islamist militant from the Northern Sinai.

13. (C) Minister of Tourism El Maghrabi told Charge that security in Sharm and other tourist destinations was being scrutinized and enhanced where necessary. Tourism contacts and local press reports confirm increased physical security barriers around hotel car parks and the broader implementation of vehicle access restrictions, such as a requirement to surrender of one's drivers license upon entry. Additional security measures have also been put in place to restrict lobby access.

14. (C) ECPO LES employees report that many of their contacts accuse Minister of Interior Habib Al Adly of incompetence, saying that, even in light of the October 2004 bombings, Al Adly's attentions have been more focused on confronting political demonstrations than counterterrorism preparations. Those who expected his firing shortly after the bombings -- as happened to his predecessor after the 1997 Luxor massacre -- now believe that Mubarak doesn't want to risk any instability in the MoI in the run-up to elections this fall. The MoI has been on a 24/7 "state of alert" since the blasts and all employee leave has been cancelled indefinitely. Some contacts in Ministry circles still believe Al Adly is on his way out, and mention the names of Assiyut Governor Ahmed Hammam and Kafr El Sheikh Governor Salah Salama as potential replacements.

Economic Impact

15. (U) Tourism is Egypt's largest foreign exchange earner, directly accounting for 10 percent of GDP and employing 10 percent of the workforce.

16. (U) Although it's still early, the overall economic impact

of the attacks seems to be less than initially feared. The Ministry of Tourism estimates a 10 percent drop in tourism revenues for 2004-2005, from USD 6.5 billion to USD 5.85 billion. A July 25 EFG-Hermes study of previous negative shocks to the tourist industry finds that the periods of decline in tourist arrivals subsequent to a shock have been relatively short, with a recovery usually occurring within six months.

17. (U) The study also offers two aftermath scenarios: one based upon a 14 percent drop in tourism revenues in 2004-2005 to USD 5.5 billion and one assuming a 35 percent drop to USD 4.2 billion. In both cases, the current account balance is forecast to drop from pre-attack estimates of 4.2 percent of GDP to 2.8 percent (optimistic) and 2.1 percent (pessimistic). The study also posits that Egypt's status as a net exporter of liquified natural gas, a comfortable level of reserves at the Central Bank (USD 19.2 billion as of 6/05) and of net foreign assets in the financial system (USD 13 billion as of 5/05) will serve as shock absorbers for the overall economy.

Hotels

18. (C) Fergus Stewart, the general manager of the Hyatt Regency Sharm El Sheikh (please protect) painted for us a challenging, but not bleak, picture of the months ahead. He noted that his hotel is still 60 percent booked for August (down from 92 percent prior to the blasts), but he expects a weak September. According to press reports, hotel occupancy rates overall in Sharm have dropped from nearly 100 percent occupancy to about 60 percent.

19. (C) He added, though, that October brings hopes for recovery with the arrival of what is traditionally a big season for undeterred Russian tourists. Egyptian actors and other public figures have launched a campaign to promote travel by Arabs to Sharm during the upcoming Ramadan season (roughly October 4 - November 2, 2005). The Hyatt GM, although admittedly optimistic as compared to many of his colleagues, anticipates occupancy rates to be back to normal by November. The outlook for hotels catering to Egyptian/Arab tourists is gloomier, however, with business having "dried up" for August. Occupancy rates in Cairo, Luxor and Aswan are reportedly at normal levels.

110. (SBU) Anecdotal evidence suggests that hotel cancellations are trending along national lines. Italians left en masse after the bombings while hoteliers describe the British market as "strong as ever." The Coral Reef Hotel, which caters primarily to Italian clients, is fielding only 10 percent occupancy at present. (Press reports indicate Italy lifted its travel warning August 2.) The fact that UK tour operators allowed fully refundable cancellations only in the first week after the attacks may have aided the British tourists' resiliency.

111. (SBU) Local government has stepped in to try and prevent any mass layoffs of hotel workers. According to hotel managers, the South Sinai governate issued a circular to all hotels and businesses instructing them not to lay off workers or they would face "penalties," and providing a hotline for any workers that are let go. Hotels, some of which have transferred labor to extra maintenance duties, may be forced to begin layoffs barring an October recovery. Press reports indicate that some hotels are assigning mandatory leave and reducing salaries.

Transport

112. (U) Egypt Air Chairman Sherif Galal reported on July 31 that "bookings have returned to their levels of before the attacks," due perhaps in part to 30 percent discounts on Egypt Air's Sharm-bound flights. The Holding Company for Maritime and Inland Transport reduced rates on bus services to Sharm from Cairo and Alexandria by 35 percent in an effort to attract tourists to the resort city.

113. (C) Caltex Egypt Country Chairman Ehab Eissa (please protect) told Econoff he is keeping a close eye on what effects fewer tourists will have on his downstream petroleum sectors such as aviation fuel. Caltex focuses primarily on retail products here and is a major concessionaire for aviation fuel to Egypt's airports, including enjoying a 100 percent concession at the Marsa Alam airport which services Egypt's southern Red Sea coast. He noted that, as of last week, flight numbers had not decreased, but the passenger numbers were heavily skewed towards departures. (Marsa Alam is served primarily by charter flights from Europe.)

Coordinated Response

14. (U) Minister of Investment, Dr. Mahmoud Mohieldin, has formed a delegation, including the heads of some of the state-owned insurance, contracting, and tourism companies, to visit Sharm and provide rapid assistance to the commercial sector there. Private companies in the construction, tourism, and other sectors have donated cash, expertise and free materials to assist in the rebuilding effort. Public pharmaceutical companies allocated LE 2 million (USD 350,000) to aid the cause. The Egyptian press has reported that most businesses in Sharm do not carry terrorism insurance.

Minister of Tourism Pays Condolence Call

15. (C) Minister of Tourism Ahmed El Maghrabi and a delegation of Egyptian Tourism Federation (ETF) officials visited the Embassy July 31 to express the GOE's condolences on the death of Amcit Kristina Miller in the Sharm bombings. Charge thanked the delegation for the gesture, reiterated U.S. condolences for the loss of Egyptian life, and commended the GOE's emergency response efforts. Charge relayed the appreciation for the GOE actions expressed by Kristina Miller's father following his visit here. El Maghrabi said that the GOE and the ETF will reach out to the Miller family, possibly inviting them to return to Egypt. The tour "would not be a publicity event" but done quietly as a "humanitarian gesture."

16. (C) El Maghrabi observed that if a silver lining did exist in this tragedy, it is that Egyptian civil society has, for perhaps the first time, gone beyond relativism and strongly denounced terrorism.

17. (C) Regarding the Embassy's July 23 Public Announcement, El Maghrabi said the GOE was "very understanding" and there would be "no pressure" to rescind the announcement. He also noted that the traveling public "reads advisories in a realistic fashion" and, given the presence of President Mubarak in Sharm and the upcoming Arab summit there, he feels that people will perceive Sharm as a safe destination. Charge explained our announcement/advisory system and said that the U.S. would work proactively to monitor the security situation in the South Sinai governorate and would amend the announcement as the situation warranted.

Casualty Update

18. (C) State Security sources reported that there are 64 identified remains plus an additional 10 - 13 unidentified partial remains. Officially, there are 15 foreigners dead: 6 Italians, 5 Turks, 1 Amcit, 1 Czech, 1 British and 1 unidentified foreigner. However, British Consul Mark Rakestraw (please protect) told ConOff that they are operating with the number of their dead at 10. Of those, Rakestraw said that they have five with good identification, two others that they will likely be able to confirm shortly, and three that will have to await DNA results. Thus, the end figure is likely to be higher than the current official count. British forensic teams are on the ground in Sharm solely to ID British victims; GOE has appreciated offers of British assistance but has yet to accept any. Official estimates put the number of injured at 107 with 20 of those being foreigners.

Condolences for Ramy Tappouzzada

19. (U) The family of Embassy Cairo Human Resources LES Ramy Tappouzzada held the funeral on August 1 for his 16 year old son, Ghaleb, who was killed in the attacks.

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